DONALD A. MANZULLO
16TH DISTRICT, ILLINOIS

COMMITTEE ON FOREIGN AFFAIRS

SENIOR REPUBLICAN
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REMARKS OF THE HONORABLE DONALD A. MANZULLO (IL-16th) BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION

SMALL AND MEDIUM-SIZED ENTERPRISES

(Investigations Nos. 332-509 and 332-510)
Thursday, March 18, 2010 at 9:30AM

500 E Street, S.W., Washington, DC 20436

Thank you, Madam Chairman and Commissioners, for giving me the opportunity to testify today. I am keenly interested in topic of small business trade, and was one of my motivations in running for Congress. For six years, I was Chairman of the House Small Business Exports Subcommittee. Then, when I became the Chairman of the full Small Business Committee in 2001, I made small business trade and manufacturing issues a high priority. And, I continue my trade focus on the House Foreign Affairs Committee where I am the senior Republican on the Asia Subcommittee and also serve on the subcommittee that has jurisdiction over export controls and trade promotion issues. So, I have been following Small and Medium-Sized Enterprise (SME) trade issues for over a decade and hopefully my observations will be helpful as you complete your report.

Winnebago County, Illinois is second in the nation (behind Wayne County, Michigan) in terms of manufacturing as a percentage of the local economy. About one-quarter of economic activity in Winnebago County can be directly attributable to manufacturing, which is double the national average. Many of these manufacturers are involved in the aerospace, automotive, food processing, and medical and environmental technologies industries.

I represent an area of the country that once led the nation in unemployment during the early 1980's at 25 percent. We lost many major manufacturers. One of the reasons for the record unemployment back then was that many of the businesses in the community were insulated from global competition and thought exporting meant selling to Indiana. Now, during the greatest economic crisis since the Great Depression, unemployment for January in Rockford leads the state at 19.7 percent. The unemployment rate in nearby Boone County is 22.1 percent. Finding foreign buyers for products made in northern Illinois is critical for our economic recovery because it has brought our area out of previous recessions. For an area of about 350,000 people, the

WASHINGTON, DC OFFICE:
2228 RAYBURN BUILDING, WASHINGTON, DC 20515 • 202/225-5676 • FAX: 202/225-5284
http://manzullo.house.gov

DISTRICT OFFICES:
❑ 415 SOUTH MULFORD ROAD, ROCKFORD, IL 61108 • 815/394-1231 • FAX: 815/394-3930
❑ 101 NORTH VIRGINIA, SUITE 170, CRYSTAL LAKE, IL 60014 • 815/356-9800 • FAX: 815/356-9803

Rockford region exported $737 million worth of goods for the first six months of 2008 before the financial crisis hit. This is more than the Rockford area exported in all of 1993, before many of the trade agreements took effect and before the advent of the Internet. Thus, by looking at these local export statistics, trade agreements of all types have helped Rockford-area SMEs because these agreements have removed some of the costs of exporting. Just look at the success that Barker Rockford, which makes BMX starting gates. Four years ago, this firm did not export anything. Now, nine workers at this small 13 person firm owe their jobs to exports to 39 countries around the world. Obviously, bilateral or regional trade agreements that lower barriers even further than World Trade Organization (WTO) limits are of even great benefit to SMEs. But it would be better for SMEs to have one set of standards to comply with, as opposed to requiring SMEs to comply with multiple sets of trade rules.

But we still lag far behind what other nation's do in exporting. A great nation like ours, which was founded on trade, still exports much less, as a percentage of our Gross Domestic Product, than other developed nations. We were isolated for years by two oceans and abundant resources but now the Internet and globalization have torn down those barriers. We have to understand as a nation that 96 percent of the world's consumers, controlling over 70 percent of the world's purchasing power, live outside of our border. We cannot continue to rely on the remaining four percent of consumers located in the U.S. for our economic prosperity.

That's why I was excited and thrilled when President Obama set an ambitious goal in his State of the Union message, further detailed in his recent remarks before the Export-Import Bank annual conference, to double our nation's exports over the next five years. He said in his State of the Union speech that "we need to export more of our goods. Because the more products we make and sell to other countries, the more jobs we support right here in America." He announced a National Export Initiative to help farmers and small businesses increase their exports. He estimated that this initiative will support two million jobs in America.

What can we do to help the President achieve this goal? The questions you asked in your hearing notice will help frame this discussion for policy makers.

The most significant impediment that U.S. SMEs face in their efforts to export all center around constraints on resources. This was also identified in your January report. Many small businesses have limited financial and human resources to even explore trade opportunities. The 2008 National Export Strategy report noted that 30 percent of companies that do not export indicated that they would consider exporting if they had more information on markets, specific opportunities, and the exporting process. How can we help these small businesses?

In the area of trade policy, the issue of trade facilitation would be of the greatest assistance to small business exporters. Because unlike larger multinational corporations, small exporters are geographically constrained and cannot simply move production overseas to overcome foreign trade barriers. According to the Commerce Department, 90 percent of SMEs are single location firms. Trade facilitation includes zeroing out tariffs; streamlining trade dispute resolution procedures; reforming the documentation and filing procedures for patent and trademark protection; enhancing transparency in international tax, finance, customs procedures, and trade rules; and exploring ways to have reciprocal recognition of technical certificates of professionals.

Some modest progress has been made on those issues over the years, mostly country by country in separate bilateral trade agreements. SMEs have benefited from these changes but more could be done. One example that has emerged in recent weeks is the plight of Schafer Fisheries in Thomson, Illinois. One day, they were doing a booming business in exporting frozen Asian carp fillets to Israel under zero tariffs to be processed into gefilte fish, a Passover holiday delicacy. Then, because of an inadequate Free Trade Agreement, Israel decides to impose a punitive tariff of 90 percent on all U.S. carp imports to help their nascent fish farming industry. And now, 43 workers in Illinois, Iowa, and Wisconsin lost their jobs and the hours of the remaining 30 workers in Illinois have been cut in half. On top of this, Israeli and worldwide consumers of gefilte fish are faced with shortages and higher prices right before Passover. What will be the result of this new tariff? Schafer Fisheries' former customer in Israel will now source carp from Canada instead of the U.S. because Canada has a better FTA with Israel. This is the practical effect of protectionism and the need to negotiate and continually monitor trade agreements.

One concrete confidence-boosting step that could be taken in the Doha Round of international trade talks is to focus on trade facilitation. One of the failures of the Doha Round is that it attempts to accomplish too much all at once. This gives various regional and industry sector groups too much power and leverage to scuttle a deal. Because small businesses are politically popular in every country, turning the focus of the Doha Round to trade facilitation would be a more productive and fruitful use of the time of trade ministers of all countries, including the United States. An agreement on trade facilitation almost occurred during the WTO Ministerial meeting in Caucún, Mexico in 2003. However, the agreement on trade facilitation was not "ready for prime time" back then because nations from the developing world did not understand how it could benefit them. Now, with the emergence of many regional free trade agreements, such as the Mercosur agreement in South America, the developing world understands the benefits of trade facilitation to their own home economy, particularly as developing nations sell products to each other.

However, issues affecting U.S. SMEs are not limited to trade policy. While this may be out of the purview of the guidance you received from the U.S. Trade Representative, another key component of issues affecting SMEs is exchange rate policy. As in trade policy, U.S. SMEs are geographically constrained. SMEs cannot pick up and move production overseas to offset any disadvantage they receive from a trade barrier such as foreign government directly intervening in global currency markets to give an trade advantage to their export-oriented firms and drive up the cost of imports to protect their home-grown industries. The U.S. dollar competitively floats in global currency markets against the currencies of other nations. It is not right that another nation deliberately undervalues its own currency to seek a trade advantage. This action is just as serious as when you examine the policies of a foreign government that deliberately subsidizes its industries as part of a countervailing duty trade case. Fred Bergsten of the Peterson Institute for International Economics recently wrote in the Washington Post that "correction of all of the Asian undervaluations would cut the global U.S. deficit by about $100 billion and generate at least 700,000 jobs." While I know that you cannot endorse specific pieces of legislation, I would urge your report to include a recommendation to study the policy implications of allowing U.S. companies to file CVD cases for currency misalignment.

Another way to address resource constraint issues facing SMEs is supporting aggressive and pro-active export promotion programs. Again, large businesses do not need this assistance because they already have operations and offices overseas to help them find business opportunities. Export promotion programs and services primarily help ease the anxiety many small businesses have about selling to foreign markets. Trade promotion programs provide more resources to SMEs by increasing access to information about the exporting process, foreign markets, and specific business opportunities. It also helps them access critical trade finance programs. Yet, as compared to our foreign competitors, the U.S. spends much less as a percentage of total exports on trade promotion programs. According to the 2008 National Export Strategy, the U.S. spends $0.21 per thousand dollars of exports while Japan spends $0.30; Canada spends $0.33; France spends $0.43; and Great Britain spends $0.75. This was confirmed during a visit I made to a major electronics conglomerate in China. When I talked to him about sourcing more from the United States, the CEO responded: "I see Japanese and European government trade officials all the time but where are the Americans?"

Boosting trade promotion programs and services will help achieve the President's goal of assisting small businesses increase their exports. While there is a lot of good news about SMEs (such as the number of SMEs have grown by almost four-fold over the past 20 years), there is still a lot of work to be done. For example, according to the Commerce Department, most SMEs export to just one foreign market. The Small Business Exporters Association (SBEA) estimated that if SMEs currently exporting to just one country could export the same value to a second country, U.S. exports would increase by $175 billion. SBEA also recommended that export promotion efforts should focus on economic sectors where strong small business domestic performance could yield more exports. These include sectors such as waste, sewage, and water systems; water well drilling; geophysical surveying and mapping services; and waste management and remediation services. Adjusting just 10 percent of these SME sales to overseas market would increase exports by up to $280 billion per year. In other words, we must also be strategic in directing our trade promotion efforts if we are ever to achieve the President's goal to double our exports. Just taking those two actions above would cut our current trade deficit by more than half.

The President's Fiscal Year 2011 budget request for the International Trade Administration at Commerce is expected to support $4.4 billion in additional exports in 2011 to sustain or create somewhere between 17,000 to 30,000 jobs (assuming $1 billion in exports supports 4,000 to 7.000 jobs). These workers would then pay about $220 million in taxes and save the government about $540 million in social safety net spending (unemployment compensation, COBRA health insurance subsidies, food stamps, and job training), more than paying for the entire budget of the ITA. Thus, I would encourage you to include in your recommendations support for a vigorous and aggressive export promotion programs and services that primarily serve the needs of SMEs.

This also includes supporting Foreign Trade Zones (FTZs). These zones allow U.S. manufacturers to import products duty-free in order to send the finished goods out for export. Thus, the U.S. manufacturer saves the cost of the import duty, making them more globally competitive. In 2008, FTZs conducted $693 billion in business in the U.S. and directly employing 330,000 workers. During this same time period, FTZs exports to foreign countries reached over $40 billion. I have seen the benefit of FTZs to manufacturers based in northern Illinois. We need more small manufacturers to explore the possibility of using FTZs and lower the paperwork burden for SMEs to qualify for an FTZ.

Finally, I was also excited when the President called for reforming our nation's export control system consistent with national security. For some select SMEs, this U.S. government imposed barrier is the single most significant constraint in their ability to export. This has been a cause close to my heart ever since I became a Member of Congress after I listened to story after story of U.S. SMEs losing sales to foreign competitors who advertise that they don't have to go through the cumbersome U.S. licensing system. Again, Fred Bergsten estimated that "export controls…were choking off $25 billion to $40 billion in annual U.S. sales in the early 1990s and might be more substantial today." Controlling exports on widely-available technology wastes the time of our export compliance officers who should be expending their energies on stopping bad guys from accessing truly sensitive technologies. The control list needs to be frequently updated to take into account rapidly moving technology. We also need to modernize the computerized Automated Export System (AES) to coordinate export control regulations and tariff classifications to help small exporters avoid inadvertent errors in shipping. Unlike some other issues you will listen to during the hearings on this topic, export controls can be changed by altering U.S. government policy. As a result, their negative impact can be ameliorated, if not entirely eliminated. Thus, I would also recommend that you include in your report a recommendation on reforming our nation's export control system.

In sum, the best way I see to help small business exporters is to (1) negotiate trade facilitation agreements; (2) include foreign currency misalignment as a countervailing duty action item; (3) support aggressive export promotion programs that serve the needs of SMEs in both assisting them in finding business opportunities overseas and in trade finance, including expanding the use of Foreign Trade Zones; and (4) support export control reform consistent with national security objectives.

Again, thank you Madam Chairman and Commissioners for giving me the opportunity to testify today.